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Message Text

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ACTION EA-09

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /125 W
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TO SECSTATE WASHDC 2981
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUALA LUMPUR
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY QUITO
AMEMBASSY SINGAPORE
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
USMISSION EC BRUSSELS
USMISSION OECD PARIS UNN
AMCONSUL MEDAN
AMCONSUL SURABAYA

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E.O. 11652: GDS

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TAGS: ENRG, ID
SUBJECT: GOI-OIL COMPANY DISCUSSIONS

1. SUMMARY: THIS MESSAGE SUMMARIZES CURRENT DEVELOPMENTS IN GOI-OIL COMPANY NEGOTIATIONS. GOVERNMENT DEMANDS FOR GREATER PER BARREL REVENUE HAVE PRODUCED STATEMATE WITH COMPANIES WHO SAY ANY DECISION WILL HAVE TO BE DECREED UNILATERALLY. TALKS HAVE BEEN WITH SELECTIVE COMPANIES DIVIDED INTO TWO GROUPS: CONTRACTS OF WORK (CALTEX) AND PRODUCTION-SHARING AGREEMENTS (UNION, ARCO, IIAPCO, PETROMAR TREND). CALTEX DISCUSSIONS IN SUSPENSE AND DECREE RE $1.00/BARREL CUT IS POSSIBLE; PRODUCTION-SHARING GROUP WILL CONTINUE DISCUSSIONS THIS WEEK. UNOFFICIAL IMF MEMO APPEARS TO HAVE GREATLY INFLUENCED BASIC GOI POSITION WHICH HINGES ON NEED OBTAIN ADDITIONAL $500-600 MILLION FOREIGN EXCHANGE. EMERGENCE OF NEW PLAYERS, NEW TACTICS, POLITICAL MOTIVATIONS PLUS INCREASINGLY MORE NOTICEABLE STRAINS OF NATIONALISM SUGGEST POSSIBLE NEW ERA IN GOI RELATIONS WITH FOREIGN OIL COMPANIES. END SUMMARY.

2. EFFORTS BY GOI TO OBTAIN MORE MONEY FROM OIL COMPANIES WHICH FIRST SURFACED IN LATE SEPTEMBER HAVE NOW COME TO HEAD. GOVERN-MENT DECISION TO APPROACH COMPANIES TRIGGERED BY PRECARIOUS FOREIGN EXCHANGE POSITION CAUSED BY FINANCIAL BAIL-OUT OF PERTAMINA, STATE OIL COMPANY. MEMO DONE BY MEMBERS RESIDENT IMF MISSION APPEARS TO HAVE HAD MAJOR IMPACT ON GOI THINKING. MEMO, WHICH WAS UNOFFICIAL AND AS FAR AS WE KNOW HAD NO BACKING FROM IMF/WASHINGTON, SUGGESTED - BY COMPARING PROFIT-TAKE IN PERSIAN GULF WITH THAT IN INDONESIA - GOI COULD REALIZE SUBSTANTIALLY LARGER REVENUE BY RECOUPING GRRATER PERCENTAGE ITS PER BARREL OIL REVENUE THAN IT IS CURRENTLY RECEIVING. MEMO WAS SUBMITTED TO MINES MINISTER SADLI AND MINISTER NATIONAL ECONOMY WIDJOJO, GOI'S PERAMOUNT TECHNOCRATS, WHO IN TURN USED IT TO INFLUENCE PRES-IDENT SUHARTO. TECHNOCRATS HAD LONG DISAGREED WITH PERTAMINA PRESIDENT-DIRECTOR GEN. IBNU SUTOWO WHO GENERALLY BELIEVED INDONESIAN SITUATION JUSTIFIED LARGER COMPANY PROFIT.

3. TALKS WITH CALTEX BEGAN IN DECEMBER. ALTHOUGH GEN. IBNU PARTICIPATED BRIEFLY, DEPARTMENT MINES OIL AND GAS DIRECTOR WIJARSO WAS CHIEF NEGOTIATOR. INITIAL MEETINGS WERE INCONCLUSIVE AND REPRESENTATIVES OF CALTEX'S SHAREHOLDERS, SOCAL-TEXACO, RETURNED MID-FEBRUARY. CALTEX EXPRESSED INITIAL OPPOSITION
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TO GOI DEMAND FOR ADDITIONAL TAKE OF $1.00 PER BARREL FROM CALTEX'S NET PER BARREL PROFIT OF $2.30. CALTEX ARGUED THIS WOULD CAUSE IMMEDIATE DECREASE IN LIFTINGS OF "MARGINAL," NON-PROFITABLE OIL AND CANCELLATION OF $400-$500 INVESTMENT FOR SECONDARY AND TERTIARY RECOVERY PROGRAM AT MINAS FIELD. COMPANY OFFERED REVISED PROPOSAL WHICH ACCEPTED CUT ON PROFITABLE EASTERN HEMISPHERE (JAPAN) DELIVERIES IN RETURN FOR NO CHANGE IN PROFIT SPLIT ON LIFTINGS SLATED FOR MARGINAL, WESTERN

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HEMISPHERE (U.S. GULF AND EAST COAST).
ALTHOUGH WIJARSO INDICATED REVISED PROPOSAL CONTAINED BASIS
FOR POSSIBLE COMPROMISE NEGOTIATED SETTLEMENT, GOI BACKED DOWN
WHEN INDONESIAN DAILY SINAR HARAPAN CARRIED REPORTS OF NEGOTIATIONS.
IN LIGHT OF THIS, GOI INFORMED COMPANY FEB 18 THAT THEIR ONLY
CHOICES WERE BETWEEN AGREEING TO ADDITIONAL $1.00/BARREL CUT OR
HAVING GOI LEVY INCREASE BY UNILATERAL DECREE. NEVERTHELESS,
GOVERNMENT HAS NOT YET ISSUED DECREE AND MAY STILL HOPE FOR
SOME FORM OF AGREEMENT.

4. MEANWHILE, DISCUSSIONS WITH PRODUCTION-SHARING CONTRACTORS
BEGAN FEB 23 AND ARE SCHEDULED TO CONTINUE THIS WEEK.
COMPANIES HAVE BEEN DEALING WITH WIJARSO AND TIRTO UTOMO OF
PERTAMINA. THUS FAR, GEN. IBNU, WHO RECENTLY RETURNED FROM
STATES, HAS TAKEN NO DIRECT ROLE ALTHOUGH HE HAS BEEN PERIODICALLY
BRIEFED BY WIJARSO. OUR SURVEY OF COMPANIES INDICATED GOVERNMENT
HAS MADE IDENTICAL REQUEST TO EACH FOR ADDITIONAL $2.50/BARREL
WHICH WOULD BE OBTAINED BY REDUCTION OF PER BARREL COST RECOVERY
ALLOWANCE. (UNDER TERMS PRODUCTION-SHARING AGREEMENTS, COMPANIES
MAY RECOVER ANNUAL OPERATIONAL COSTS UP TO 40 PERCENT OF VALUE
OF TOTAL PRODUCTION, OR AROUND $5.00 ON PER BARREL BASIS.)
GOVERNMENT BELIEVES THIS FORMULA OVERSTATES ACTUAL COSTS
WHICH ARE BELIEVED TO BE IN NEIGHBORHOOD $2.00-$3.00/BARREL.
COMPANIES HAVE UNIVERSALLY REJECTED THIS DEMAND AND HAVE IN-
DICATED THEY WILL REFUSE TO SIGN ANY AGREEMENT WITH GOI ON
CHANGES OF THIS NATURE. COMPANIES SAY FULL AMOUNT OF COST
RECOVERY IS NEEDED FOR NECESSARY UP AND DOWNSTREAM INVESTMENTS.
THERE ARE SIGNS THAT COMPANIES' ADAMANT "STONEWALLING" MAY BUY
MORE TIME AS GOI REVIEWS ITS POSITION ON PRODUCTION-SHARING.

5. THESE DISCUSSIONS REPRESENT SIGNIFICANT DEPARTURE IN MANY
RESPECTS FROM PREVIOUS NEGOTIATIONS. FIRST OF ALL, GENERAL
IBNU, FATHER OF PRODUCTION-SHARING CONCEPT, HAS BEEN LESS
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INFLUENTIAL AS RESULT PERTAMINA MANAGEMENT AND FINANCIAL
DIFFICULTIES. TECHNOCRATS LED BY MINISTERS SADLI AND WIDJOJO
HAVE CARRIED BALL. IT HAS LARGELY BEEN TECHNICAL STAFF AT
ECONOMIC PLANNING BOARD (BAPPENAS) AND NOT PERTAMINA WHICH HAS
DRAFTED PRESIDENT'S POLICY DECISIONS. COMPANIES HAVE COMMENTED THAT
CHANGE HAS PRODUCED MUCH LESS FAVORABLE ATTITUDE TOWARD THEIR
POSITION. IRONICALLY, BOTH WIJARSO AND UTOMO ARE NORMALLY MORE
UNDERSTANDING OF COMPANIES' POSITION BUT THEIR STRICT PRESIDRFTIAL
NEGOTIATING INSTRUCTIONS GIVE THEM LITTLE LEEWAY IN THIS MATTER.
INCREASINGLY MORE NOTICEABLE NATIONALIST OVERTONES HAVE ALSO BEEN
APPARENT. COMPANIES WHO HAVE BEEN CONDITIONED BY IBNU'S
MORE UNDERSTANDING ATTITUDE WORRY THAT THESE CHANGES MAY MEAN
NEW ERA IN THEIR RELATIONSHIPS WITH GOI.

6. ALL OF THIS COULD HAVE SERIOUS IMPLICATIONS FOR FUTURE OIL

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AND GAS ACTIVITIES IN INDONESIA. EVEN BEFORE THESE DISCUSSIONS BEGAN, COMPANIES HAD PROJECTED SIZEABLE CUTBACK ON E&P EXPENDITURES FOR 1976, FIRST TIME SINCE 1967 THAT THESE INVESTMENTS HAVE DECLINED. ANY CHANGE IN CONTRACT TERMS IS LIKELY TO MEAN FURTHER REDUCTION IN SPENDING. AS RESULT, GOI MAY NO LONGER BE ABLE TO REACH ITS ORIGINAL 1976 CRUDE PRODUCTION TARGET OF 1.65 MILLION B/D. ALREADY, MIGAS HAS BEGUN PRELIMINARY PROJECTIONS REVISING OUTPUT DOWNWARD TO ABOUT 1.5 MILLION B/D. THIS DIFFERENCE COULD HAVE OBVIOUS EFFECT ON GOVERNMENT REVENUES AND EXECUTION OF DEVELOPMENT PLANS. IN ADDITION, UNILATERAL DECREES, IF ISSUED, COULD HAVE NEGATIVE IMPACT ON TOTAL FOREIGN INVESTMENT CLIMATE.
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